

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
NEW ENGLAND MUTUAL INSURANCE COMPANY

Quincy, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 1275

NAIC COMPANY CODE 12725

EMPLOYER ID NUMBER 04-1028440

NEW ENGLAND MUTUAL INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

April 25, 2016

The Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

NEW ENGLAND MUTUAL INSURANCE COMPANY

at its home office located at 57 Washington Street, Quincy, Massachusetts 02169. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

New England Mutual Insurance Company ("Company") was last examined as of December 31, 2009 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2010 through December 31, 2014 including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by PricewaterhouseCoopers LLP ("PWC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2010 through 2014. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective. Representatives from the firm of Actuarial Group Inc. were retained by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division's examination staff. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

General

The Company originally had been chartered on March 30, 1887, as American Mutual Liability Insurance Company ("AMLIC") by an Act of the Massachusetts Legislature. Subsequently, AMLIC had been ordered liquidated effective March 9, 1989, by the Supreme Judicial Court of Massachusetts ("Court"). By an order and injunction ("Order") of the Court entered on August 11, 2006, the Company was restructured and all of the Company's prior and existing liabilities and obligations were released and discharged to a trust. The Court also thereby approved a change of name of the Company to New England Mutual Insurance Company, and authorized to transfer control of the corporate shell of the Company to Quincy Mutual Fire Insurance Company, ("QMFIC"), clear of any of the Company's liabilities existing immediately prior to such transfer. The transaction between the Commissioner and QMFIC was closed effective October 1, 2006; as of that date QMFIC acquired control of the Company pursuant to the Order and QMFIC re-capitalized the Company with a \$20.0 million investment in the guaranty capital shares issued by the Company. The Company thereby became an affiliate of QMFIC and a member of the Quincy Mutual Group.

On October 14, 2011, pursuant to written approval from the Massachusetts Commissioner of Insurance, QMFIC purchased an additional \$20 Million in guaranty capital shares from the Company as was authorized by the Company's members at a duly noticed and convened Special Meeting of Members held on July 28, 2011. On November 14, 2014, pursuant to written approval from the Massachusetts Commissioner of Insurance, QMFIC purchased an additional \$5 Million in guaranty capital shares from the Company as was authorized by the Company's members at a duly noticed and convened Special Meeting of Members held on September 29, 2014.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors of the Company and the Committees of QMFIC, who act on behalf of the Company, were read and they indicated that all meetings were held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees of QMFIC were ratified at meetings of the Board of Directors.

New England Mutual Insurance Company

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board of Directors which may exercise all of the powers of the Company, except as otherwise provided by the articles of incorporation, by law, or the bylaws. The Board of Directors shall consist of not fewer than seven or not more than sixteen Directors. The Company's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
James Dudley Asher	Director
Steven Harvey Briggs	Senior Vice President
Alexander Gordon Clark	Director
Thomas Arthur Harris	Treasurer
James Walter MacAllen	Director
James Joseph Moran, Jr.	Secretary
John Michael Sheskey	Director
John Paul Tierney	Senior Vice President

Officers

Officers and management of the Company as of December 31, 2014 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Karl Douglas Briggs	President
James Joseph Moran, Jr.	Secretary
Thomas Arthur Harris	Treasurer
Kevin Michael Meskell	Executive Vice President
Steven Harvey Briggs	Senior Vice President
John Paul Tierney	Senior Vice President
Harold Eugene Gerbis, Jr.	Vice President
Mark Anthony Giuliani	Vice President
Brian Thomas Hayes	Vice President
Lu-Ann Robin Smith	Vice President
Lisa Marie Schooley	Controller

New England Mutual Insurance Company

Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws ("M.G.L."), Chapter 175, Section 206C and 211 CMR 7.00. QMFIC is the ultimate controlling party of the group consisting of twenty-six entities, including three insurance and twenty-three non-insurance entities.

Organizational Chart

At December 31, 2014, the Company is a member of the following organizational structure:

Quincy Mutual Fire Insurance Company (MA)

New England Mutual Insurance Company (MA) – Affiliated Insurer, Controlled by Quincy Mutual Fire Insurance Company

Patrons Oxford Insurance Company (ME)

Quincy Mutual Group, Inc. (MA) – (5% owned by New England Mutual Insurance Company)

Quincy Investment Holdings, LLC (MA)

Burgin, Platner, Hurley Insurance Agency, LLC (MA)

Gardiner, Whiteley, Boardman Insurance Agency, LLC (MA)

Commercial Solutions Alliance Insurance Agency, LLC (MA)

SIA, LLC (MA)

Quincy Lincoln, LLC (MA)

Quincy Foxboro, LLC (MA)

Quincy Medford, LLC (MA)

Quincy Woburn, LLC (MA)

Wollaston Investments, LLC (MA)

Walkers Brook Crossing, LLC (MA)

Two Walkers Brook Crossing, LLC (MA)

Quincy Chestnut Street, LLC (MA)

Summer Street Marketplace, LLC (MA)

13.5 Pond Newburyport, LLC (MA)

Morse Bay, LLC (MA)

Brickstone Sharon, LLC (MA)

Brickstone Sharon 2, LLC (MA)

Pine Valley Mill, LLC (MA)

Beal Investors I, LLC (MA)

Chestnut Development, LLC (MA)

Merchants' Row Quincy, LLC (MA)

Hancock Adams Associates II, LLC (MA)

New England Mutual Insurance Company

Transactions and Agreements with Affiliates

Administration and Management Services Agreements

QMFIC provides certain accounting, management and other services to the Company and its affiliate, POIC. In consideration of such services, the Company and POIC agreed to pay the costs and expenses of such services.

Management Services Agreement

Effective January 1, 2013, the Company, along with its affiliate QMFIC entered into a management services agreement with its newly-formed non-insurance subsidiary, Quincy Mutual Group, Inc. All of QMFIC'S former employees now reside at Quincy Mutual Group and perform services for the affiliates with the costs and expenses being reimbursed by the entities.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in one state, with all insurance risks written in Massachusetts. The Company uses independent agents to sell homeowners multi-peril policies in Massachusetts. The Company reported \$12,706,045 of direct premium written in Massachusetts, but also assumed business from its affiliate, QMFIC.

Treatment of Policyholders – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2014 through December 31, 2014. The market conduct examination was called pursuant to authority in M.G.L. Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose and Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under the market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

REINSURANCE

Assumed Reinsurance

Effective January 1, 2014, the Company executed a quota-share reinsurance agreement to assume Maine personal automobile insurance business from its affiliate, QMFIC.

Ceded Reinsurance

Effective January 1, 2012, QMFIC issued to the Company an excess of loss contract providing coverage of \$2.5 million of ultimate net loss in respect of each loss occurrence in excess of the Company's retention. Also effective January 1, 2012, QMFIC issued to the Company a 100% quota-share agreement on all Massachusetts umbrella policies written by the Company.

In addition, the Company has entered into various excess of loss and catastrophe treaties in the ordinary course of business in order to manage their various risks.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2014. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2014

Statement of Income for the Year Ended December 31, 2014

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2014

New England Mutual Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2014

	Per Annual Statement
ASSETS	
Bonds	\$ 66,213,210
Common Stocks	473
Cash, cash equivalents and short-term investments	3,552,251
Subtotals, cash and invested assets	69,765,935
Investment income due and accrued	443,491
Uncollected premiums and agents' balances	3,359,983
Deferred premiums	1,015,534
Amounts recoverable from reinsurers	9,461
Aggregate write-ins	1,127,087
Total Assets	<u>\$ 75,721,491</u>

New England Mutual Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2014

	Per Annual Statement
LIABILITIES	
Losses	\$ 11,570,524
Reinsurance payable on paid losses and LAE	3,069,276
Loss adjustment expenses	2,063,410
Commissions payable	253,442
Other expenses	65,209
Taxes, licenses and fees	(6,598)
Current federal and foreign income taxes	21,699
Unearned premiums	18,048,166
Advance premium	198,048
Ceded reinsurance premiums payable	219,064
Amounts withheld for others	403,216
Payable to parent, subsidiaries and affiliates	253,618
Total Liabilities	<u>36,159,074</u>
Aggregate write-ins for other than special surplus funds	45,000,000
Unassigned funds (surplus)	<u>(5,437,583)</u>
Surplus as regards policyholders	<u>39,562,417</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 75,721,491</u>

New England Mutual Insurance Company

Statement of Income
For the Year Ended December 31, 2014

	Per Annual Statement
Net Premiums Earned	\$ 30,631,532
Deductions:	
Net Losses Incurred	15,989,308
Net Loss adjustment expenses incurred	3,332,800
Net Other underwriting expenses incurred	14,654,417
Total net underwriting deductions	33,976,525
Net underwriting gain/(loss)	(3,344,993)
Net investment income earned	1,025,104
Net realized capital gains or (losses) less capital gains tax	343,805
Net investment gain/(loss)	1,368,909
Net loss from agents' or premium balances charged off	(924)
Finance and service charges	52,825
Total other income	51,901
Net income after dividends to policyholders, after capital gains tax and before other federal and foreign income taxes	(1,924,184)
Federal and foreign income taxes incurred	21,699
Net income/(loss)	\$ (1,945,883)

New England Mutual Insurance Company

Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2014

	2014	2013	2012	2011	2010
Surplus as regards policyholders, December 31, prior year	\$ 36,557,562	\$ 39,148,428	\$ 41,730,203	\$ 21,528,653	\$ 20,899,713
Net income/(loss)	(1,945,883)	(2,589,095)	(2,577,590)	545,554	634,005
Change in net unrealized capital gains or (losses) less capital gains tax	(31,512)				
Change in net deferred income tax	(1,655,466)	863,144	701,137	(395,154)	3,005
Change in non-admitted assets	1,637,716	(864,915)	(705,322)	51,150	(8,070)
Aggregate write-ins for gains and losses in surplus	5,000,000			20,000,000	
Change in surplus for the year	<u>3,004,855</u>	<u>(2,590,866)</u>	<u>(2,581,775)</u>	<u>20,201,550</u>	<u>628,940</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 39,562,417</u>	<u>\$ 36,557,562</u>	<u>\$ 39,148,428</u>	<u>\$ 41,730,203</u>	<u>\$ 21,528,653</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes to the amounts reported in the Annual Statement.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Division engaged Actuarial Group, Inc (“AGI”) to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2014. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.

AGI performed an analysis of the loss and LAE reserves evaluated as of December 31, 2014. With regard to comparisons to the estimates derived by the Company’s Appointed Actuary (“AA”), AGI noted that as of December 31, 2014, the Company held net loss and LAE reserves slightly higher than the AA’s central estimate. The Company held net loss and LAE reserves of \$13.6M as of December 31, 2014 while the AA had a central estimate of \$13.1M.

The consulting actuary, AGI, noted the central estimate of the net loss and LAE reserves of \$13.1M, which is lower than the booked reserves of \$13.6M. The net booked reserves is within the AGI range of reasonable estimates from \$12.5M to \$13.8M. In the opinion of AGI, the net loss and loss adjustment expense reserves carried by the Company as of December 31, 2014, make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

The table below summarizes a comparison of AGI’s range of reasonable estimates for loss and LAE reserves to the Company’s net carried loss and LAE reserves as of December 31, 2014.

	AGI Central Estimate	Company Carried	Position (“+” means redundant)	AGI Range
Net	13.1 million	13.6 million	0.6 (+4.4%)	12.5 to 13.8 mil

SUBSEQUENT EVENTS

Subsequent to December 31, 2014, there were no material items that came to our attention for inclusion in the report of examination.

SUMMARY OF RECOMMENDATIONS

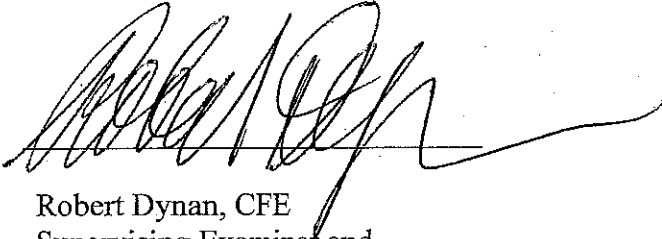
There are no recommendations being made as part of this examination report.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by Actuarial Group, Inc. and by the following Division examiner who participated in this examination is acknowledged.

Steven Tsimitsos, CFE, Financial Examiner II

A handwritten signature in black ink, appearing to read 'Robert Dynan', written over a horizontal line.

Robert Dynan, CFE
Supervising Examiner and
Examiner in Charge
Commonwealth of Massachusetts
Division of Insurance